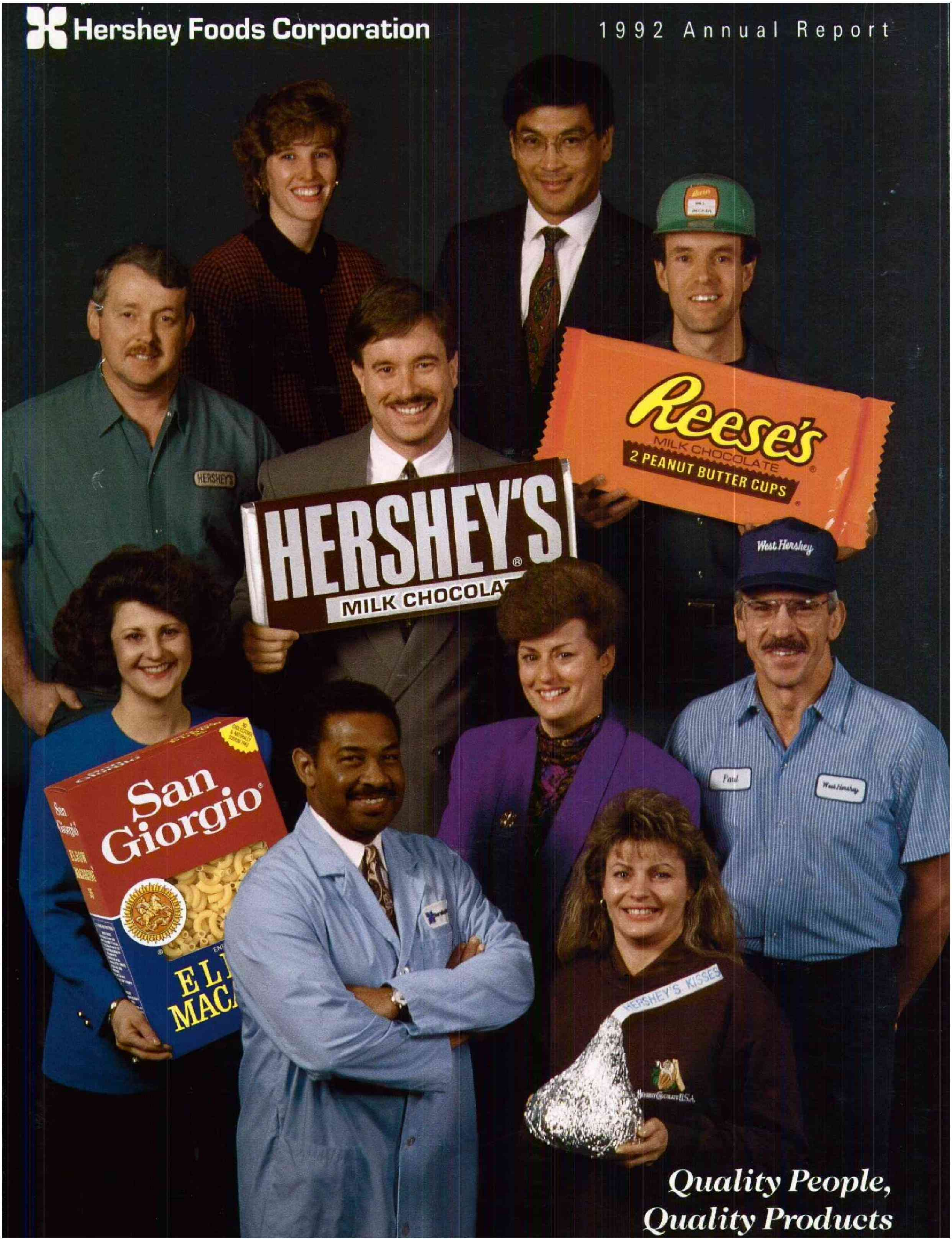
Hershey Foods Corporation
1992 Annual Report
Reese's
MILK CHOCOLATE
2 PEANUT BUTTER CUPS
HERSHEY'S
MILK CHOCOLA
HERSHEY'S
West Hershey
Paul
San Giorgio
HERSHEY'S KISSES
Quality People,
Quality Products

Hershey Foods Corporation, which includes Hershey Chocolate U.S.A., Hershey Canada Inc., Hershey International, Hershey Refrigerated Products and Hershey Pasta Group, produces a broad line of chocolate, confectionery, pasta and other food products.

Hershey Chocolate U.S.A.'s principal brands include *Hershey's*, *Reese's*, *Y&S*, *Kit Kat* and *Peter Paul*.

Hershey Canada's major brands include *Hershey*, *Reese*, *Y&S*, *Life Savers*, *Moirs* and *Planters*.

Hershey International manufactures chocolate and confectionery products in Germany under the *Gubor* brand and in Mexico and Japan under the *Hershey's* brand. In addition, the Division exports products manufactured by other divisions and monitors licensing of *Hershey's* products abroad.

Hershey Refrigerated Products produces and distributes chocolate bar flavor refrigerated puddings throughout the United States.

Hershey Pasta Group produces eight regional brands of pasta products in the United States: *American Beauty*, *Delmonico*, *Light 'N Fluffy*, *P&R*, *Perfection*, *Ronzoni*, *San Giorgio* and *Skinner*.

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Hershey Foods Corporation

1992 Financial Highlights

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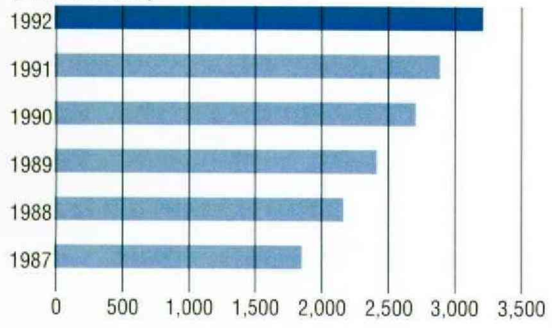
Annual Meeting
The Annual Meeting of Stockholders will be held at 2:00 p.m. on Monday, April 26, 1993, at Founders Hall on the Milton Hershey School campus, located off Route 322 on Homestead Lane, Hershey, Pa. A formal notice of this meeting, together with a proxy statement, will be mailed to stockholders on or about March 12, 1993.

(in thousands of dollars except shares and per share amounts)

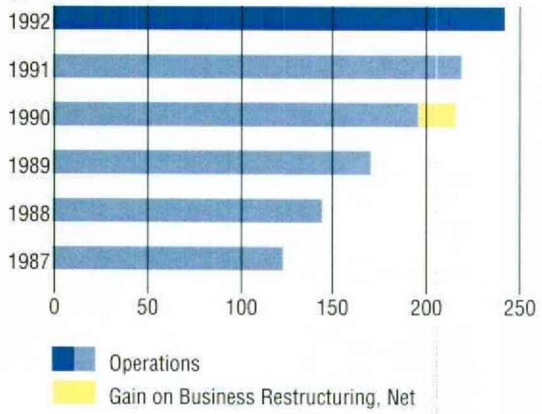
	1992	1991	Percent Change
Net sales	$3,219,805	$2,899,165	+11
Net income	242,598	219,528	+11
Net income per share	2.69	2.43	+11
Cash dividends paid per share:			
Common Stock	1.030	.940	+10
Class B Common Stock	.935	.850	+10
Cash dividends paid	91,444	83,401	+10
Capital additions	249,795	226,071	+10
Stockholders' equity at year-end	1,465,279	1,335,251	+10
Net book value per share at year-end	16.25	14.81	+10
Price per share of Common Stock at year-end	47	44 3/8	+6
Outstanding shares at year-end	90,186,336	90,186,336	—

Net income per share has been computed based on weighted average outstanding shares of 90,186,336 for 1992 and 1991. Outstanding shares as of December 31, 1992, consisted of 74,929,057 shares of Common Stock and 15,257,279 shares of Class B Common Stock.

Net Sales
(dollars in millions)



Income From Continuing Operations
(dollars in millions)



On the cover: Quality employees and quality products come together to make Hershey Foods Corporation a leader in both the confectionery and pasta industries. Front row (from left): Sterling Thompson, Science and Technology; Donna Fiorentino, Hershey Plant. Second row: Monica Ferretti, Hershey Pasta Group; Judy Anderson, Hershey Refrigerated Products; Paul Kohr, West Hershey Plant. Third row: Mike Farst, Hershey Plant; Steve Schmehl, Hershey Chocolate U.S.A.; Bill Becker, Reese Plant. Fourth row: Vivian Seiler, Corporate Finance; Takashi Arazawa, Hershey International.

Letter To Stockholders

We are extremely pleased with the results your Corporation achieved in 1992, a year in which record sales and net income were both up 11 percent, primarily attributable to volume gains for all of our divisions, especially Hershey Chocolate U.S.A.

This real growth resulted in significant market share gains during the year for Hershey Chocolate U.S.A. and Hershey Pasta Group. Aggressive selling and marketing programs were important elements in Hershey Chocolate U.S.A.'s ability to reverse the market share declines of 1991, and strengthen its leadership position in the U.S. confectionery industry. The vigor of Hershey Chocolate U.S.A.'s established confectionery brands and the ability to introduce new brands nationally resulted in sales volume growth well in excess of the U.S. confectionery industry rate of growth.

Hershey Pasta Group also achieved excellent sales and market share growth in 1992, making strides toward obtaining the domestic leadership position in the branded pasta category. Pasta sales gains were attributable to both volume and modest price increases.

Hershey Canada Inc. attained positive volume growth and important market share gains during the year, although U.S. dollar results were hampered by a weak Canadian dollar exchange rate. Hershey International achieved substantial volume increases, primarily as a result of excellent growth of export sales and the consolidation of Hershey Mexico, the remaining shares of which were purchased in late 1991.

As sales volume grows, the increased utilization of manufacturing facilities helps reduce the cost of production thereby creating more resources to be invested in selling and marketing programs to further enhance sales and increase earnings.

At the same time, one of the consequences of the Corporation's continued volume growth is the need to make substantial investments to increase manufacturing capacity, and 1992 marks the highest level of capital expenditures ($249.8 million) in the Corporation's history. We believe that expenditures for major projects such as the chocolate-processing and finished goods facilities in Hershey, Pa., and the pasta plant in Winchester, Va., will provide excellent returns.

While these highly visible projects capture the lion's share of attention, they are only half of the story. The rest of the story is equally important because a substantial portion of the Corporation's capital additions program and a great deal of training are devoted to modernization and productivity improvement, respectively. We have been working at this a long time, and Total Quality Management has become an integral part of our operating fabric. The combination of modernization and productivity improvement has made a significant contribution to reducing production costs, making Hershey Foods that much more competitive.

While the Corporation is not counting on acquisitions alone to achieve its targeted growth rates, there is definitely a strong desire to accelerate growth rates by such means. We were very disappointed by our unsuccessful bid in 1992 to acquire Freia Marabou a.s, the leading Scandinavian chocolate confectionery and snack food company. However, the sale of the Corporation's stake in Freia Marabou will result in an excellent return on our 18.6%

investment in this firm made in May 1992. A pre-tax gain of approximately $80 million should be realized in the spring of 1993. We have not abandoned our international growth strategy and continue to aggressively pursue other opportunities.

It should be re-emphasized that international expansion is viewed as an additional avenue of growth. It is our intention to expand our businesses in North America, with the United States remaining our primary market. Over time, Hershey Canada is expected to play a greater role in our growth, and we are particularly excited about the prospects for growth in the Mexican market, especially in view of the impending North American Free Trade Agreement. We will continue to attend diligently to our North American markets, but will pursue opportunities in Europe as well as in other parts of the world.

Richard A. Zimmerman (left), Chairman of the Board and Chief Executive Officer, and Kenneth L. Wolfe, President and Chief Operating Officer.

Despite the high level of capital additions, the Corporation extended its record of consecutive annual Common Stock dividend increases to 18 years in 1992. The quarterly dividend rate was increased to $.27 per share of Common Stock, a ten percent increase.

John Burlingame, a member of the Board of Directors since 1984, will retire from the Board April 26, 1993. His counsel will be greatly missed.

Additionally, several executive changes have recently occurred. Robert M. Reese was elected Vice President and General Counsel, effective January 1, 1993. He joined Hershey in 1978 and had previously been Assistant General Counsel of the Corporation. Mr. Reese succeeds Charles E. Duroni, who will retire April 30, 1993, after 15 years of service. Also, Kenneth L. Bowers, Vice President, Corporate Communications, retired January 1, 1993, after 22 years of service. We acknowledge the valuable contributions these gentlemen made in building their respective functions at Hershey.

Our long-term plans call for Hershey Foods Corporation to consistently grow sales and earnings at a rate greater than the markets in which it competes. Hershey employees are a valuable team with the skill and the will to achieve these goals. We are proud of our team's accomplishments in 1992 and look forward to 1993 with the knowledge that our employees will continue their outstanding efforts, enhancing the value of your Corporation. Our sincere thanks to all our employees for their many accomplishments in 1992.

Richard A. Zimmerman
Chairman of the Board and Chief Executive Officer

Kenneth L. Wolfe
President and Chief Operating Officer

Employee involvement and commitment are keys to Hershey's excellence. Above: (front row) John Santana, Hershey Plant Wrapping; Shirley Wentzel, Hershey Pasta Group Finance; Rick Rocchi, Hershey Chocolate U.S.A. Marketing; (back row) Jim St. John, Science and Technology, and Sue Breidenstine, Hershey Plant Press Room. Next page, top: Grace Stover, Hershey Chocolate U.S.A. Customer Service. Middle: Sue Witmer and John Belcher, Hershey Plant *Rolos* caramels in milk chocolate production. Bottom left: Kent Zeller and Joan Johnson, Science and Technology.

The quality of our products is built

Throughout its long history, Hershey Foods' success has continually demonstrated the value of its employees. A "strong people orientation and care for every employee" remains one of the main principles of Hershey's Corporate Philosophy. This commitment to people is a valuable part of the Hershey culture, and serves as one of the most important contributors to the Corporation's strength.

Hershey Foods strives to treat its employees with respect, dignity and fairness — principles that the Corporation's founder, Milton Hershey, practiced during his lifetime. For nearly 100 years, these values have guided the way our employees have done business — not only with each other, but with others around the world.

on the skill and

Building on these standards, the Total Quality Management process at Hershey Foods is a positive force fostering open communication among all employees, with the emphasis on teamwork, trust and cooperation. Hershey Foods recognizes that by encouraging employee involvement, valuing employee ideas, including employees in the decision-making process, and uniting employees behind common goals, there exists both a force and a resource that is unbeatable. And this philosophy translates into significant productivity savings for the Corporation.

commitment of our people.

Teamwork is the cornerstone of this commitment to continuous quality and productivity improvement. Working together, Hershey Foods' employees everywhere show tremendous pride in their company and its products. This dedication and enthusiasm goes beyond the workplace, because teamwork enhances the Corporation's relationships with its valued customers and suppliers.

Hershey Foods' management style reflects efforts to keep pace in an increasingly competitive environment — by encouraging more innovation, challenging methods of operation, and striving to create value in everything we do. The greatest opportunity to secure a competitive advantage is through a diverse, highly-motivated and well-trained work force. By creating a positive work environment and providing the support for people to reach their full potential, Hershey Foods ensures that employee teamwork, skill and experience play a major role in the success of the Corporation.

All Divisions contributed to a record performance in 1992, with sales and earnings growth from existing products, business acquisitions and new product introductions.

HERSHEY CHOCOLATE U.S.A.

Hershey Chocolate U.S.A. had an outstanding year in 1992. It was a year in which the Corporation's largest Division achieved record sales and earnings, strengthened its leadership position in the United States confectionery industry and re-established momentum in market share growth.

The Division's rate of sales growth for the year outpaced the industry, enabling the Corporation to regain market share. Equally important contributions to the sales increase were made by established brands and new products. Sales growth also was supplemented by modest price increases on packaged candy items.

Aggressive sales and marketing programs were instrumental in driving increased sales volume for the Division's core confectionery brands. Solid volume growth was achieved by established brands across the entire product line, with traditional favorites such as *Reese's* peanut butter cups, *Hershey's* milk chocolate bar, *Kit Kat* wafer bar, *Hershey's Miniatures* chocolate bars, *York* peppermint pattie and *Twizzlers* candy leading the way. *Symphony* chocolate bar, *Mr. Goodbar* chocolate bar, *Mounds* candy bar and *Almond Joy* candy bar, among other brands, also enjoyed healthy sales gains.

In addition, several established brands benefited from product enhancements, including *Special Dark* chocolate bar, *Mr. Goodbar* chocolate bar, *Hershey's* milk chocolate bar with almonds and *Bar None* candy bar. During

the year, these product improvements included reformulation, reconfiguration, new packaging, additional weight or the inclusion of more nuts and caramel. Product lines also were extended through the use of new pack-types which increased sales opportunities in various retail outlets.

While the vast majority of sales growth was volume-related, modest price increases during the past two years also contributed to the Division's sales growth in 1992.

Multi-skilled employees at the new West Hershey Plant (top photo) work as teams to handle the advanced technological processes involved in today's chocolate manufacturing. Right photo: state-of-the-art Computer Control Room — (background) Mike Slade, (from left) Margaret Matsuoka, Jim Zeckman, Norma Burnett and Larry George. Bottom photo: Refining operations — Bob Morgan (left) and Dennis Kelley. Left photo: Milk Receiving operations (from left) — John Iacavone, Pete Leeper and Craig Robertson.

The price of the standard candy bar line was increased in February 1991. Packaged candy prices were increased in late March 1992, the first price increase since 1984 for products such as *Hershey's Kisses* milk chocolates and *Hershey's Miniatures* chocolate bars.

New Product Introductions

New products also made an important contribution to Hershey Chocolate U.S.A.'s sales during 1992. *Amazin' Fruit* gummy bears fruit candy, the year's principal new confectionery product, was introduced nationally in the summer. Made with real fruit juices, *Amazin' Fruit* gummy bears come in two varieties of fruit flavors, tropical and original assorted.

Amazin' Fruit gummy bears were the first gummy bear product to be introduced on a national basis. In addition, the product was the subject of the largest new product sampling event in U.S. confectionery history: "Nick or Treat" 1992. Hershey Chocolate U.S.A. joined forces with McDonald's restaurants and the Nickelodeon cable television network in this promotion. The effort resulted in over 46 million trial samples of *Amazin' Fruit* gummy bears being distributed by 8,900 McDonald's restaurants nationwide during October 1992.

Over the past several years, the non-chocolate segment of the U.S. confectionery business has shown excellent growth, and *Amazin' Fruit* gummy bears represents the Corporation's second significant entry in this category. *Y&S Twizzlers* and *Nibs* candies are Hershey's other major non-chocolate confectionery products, and hold an undisputed leadership position in the licorice-type candy category.

Hershey's Cookies 'n' Mint chocolate bar was another important and successful national introduction during 1992. The bar, which is a blend of crunchy chocolate cookie bits in minty *Hershey's* milk chocolate, was distributed nationally beginning in late 1992.

Hershey's reduced calorie and fat candy bar was introduced into limited test markets during the fall of 1992. The 1.37-ounce bar contains only 150 calories and nine grams of fat, a 25 percent reduction when compared with a traditional *Hershey's* milk chocolate bar of the same weight.

Reese's peanut butter was an important source of sales growth for Hershey Chocolate U.S.A.'s grocery line. Building upon the success of the *Reese's* brand as the number-one name in peanut butter candy, *Reese's* peanut butter entered national distribution in early 1992. This product is available in creamy and crunchy varieties and is marketed in 18-ounce and 28-ounce recyclable jars. Sales of *Reese's* peanut butter in its first year of national distribution have substantially exceeded expectations.

Employee representatives from the *Amazin' Fruit* gummy bears fruit candy development team during a planning session (from left): Virginia McArthur, Contract Manufacturing; Brandt Cook and Cheryl Doherty, Science and Technology; Jeff Edleman, Contract Manufacturing; and Kathie Rhyne, Marketing.

Grocery Sales Growth

In addition to the significant growth contributed by *Reese's* peanut butter, sales in all major categories of the Division's grocery business grew faster than their respective categories. Excellent progress was made during the year by *Hershey's* syrup, *Hershey's* chocolate chips, *Hershey's Chocolate Shoppe* toppings and *Hershey's* chocolate drink in aseptic packaging. Altogether, Hershey Chocolate U.S.A.'s grocery brands account for over ten percent of the Division's total sales and have achieved excellent growth during recent years through the expanded use of the *Hershey's* and *Reese's* brand names.

Special Markets Activities

Special Markets was another area of business growth for Hershey Chocolate U.S.A. in 1992. Comprised of numerous businesses and classes of trade, Special Markets includes vending, fund-raising, concessions (theaters, sports arenas, etc.), premium chocolate bars, novelties and *Luden's* throat drops. Novelty items, such as canes and canisters filled with branded confectionery miniature products, and solid milk chocolate shapes, are particularly attractive to consumers during the special seasons of the year, such as Valentine's Day, Easter, Mother's Day, Halloween and Christmas, when confectionery products are most popular.

Record Earnings

Earnings for the year set a new record, with higher marketing expenditures supporting sales growth. Increased sales, productivity improvements, slightly lower commodity costs, and modest price increases all contributed to record earnings for the Division.

Capital Investments

During 1992, productivity improvements continued to produce substantial cost savings. These improvements and the Division's ongoing capital investment program to modernize and expand production capacity have been instrumental in reducing the Division's cost of production in recent years.

The West Hershey chocolate-processing facility in Hershey, Pa., was completed in late 1992. Using advanced technology, this facility produces the traditional *Hershey's* chocolate used in items such as *Hershey's Kisses* milk chocolates and *Hershey's* milk chocolate bar. The chocolate-processing facility, with its adjacent milk-receiving building and utilities facility, occupies 160,000 square feet of floor space. The new manufacturing plant uses a team concept to foster a sense of ownership among its multi-skilled employees, each of whom is familiar with all aspects of the production process.

A finished goods production facility, under construction adjoining the West Hershey chocolate-processing operation, is scheduled for completion in early 1993. This 180,000-square-foot facility will provide additional capacity for Hershey Chocolate U.S.A.'s products.

The Division fully expects to continue the growth of its high-quality product lines through aggressive sales and marketing programs designed to attract additional consumers to its established products, as well as create new categories of consumers through innovative new product offerings.

A Y&S Lancaster, Pa., Plant work team responsible for the planning, purchase and startup of new *Twizzlers* candy production line equipment (from left): Diane Matthews, Jeff Good, Cathy Gebhardt and Max Rodriquez.

HERSHEY CANADA INC.

Hershey Canada Inc. achieved record levels of sales and earnings in 1992 despite a weak Canadian economy and declines in retailer inventories. A nine percent decline in the Canadian dollar exchange rate reduced the rate of growth when measured in U.S. dollar terms.

Sales growth was largely attributable to volume gains in chocolate bars and boxed chocolates, both of which had been negatively influenced in 1991 by sales tax changes on confectionery products.

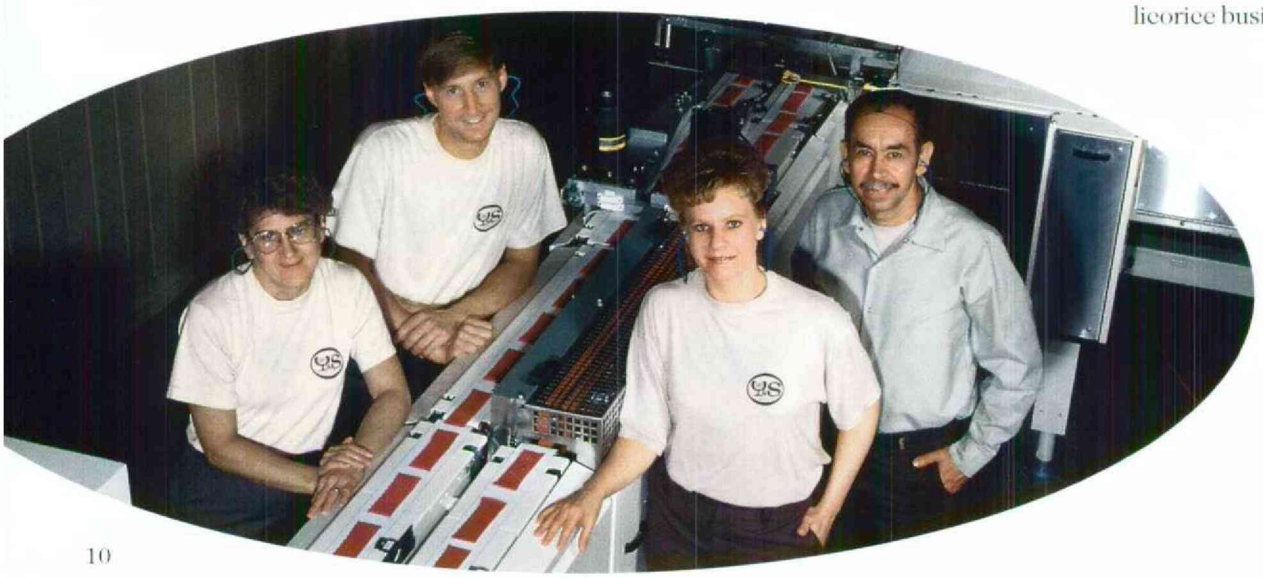
Sales Growth

Hershey Canada was able to outpace industry growth in the all-important chocolate category building upon last year's achievements in growing its overall market share.

In the face of increased investment in advertising and promotion by all confectionery manufacturers, Hershey Canada achieved record market share in its chocolate business driven by *Oh Henry!* chocolate bar, *Reese Peanut Butter Cups* candy, *Glosette* candy, *Skor* toffee bar and *Eat-More* candy.

The boxed chocolates category also posted growth, and Hershey Canada achieved record sales and market share. *Pot of Gold* chocolates, the number-one boxed chocolate brand in Canada, reinforced its market leadership position by expanding through new products and aggressive marketing programs. Growth also was due to new, innovative branded boxed chocolates for Valentine's Day which targeted teens and women, as well as the traditional male purchaser.

Growth was achieved in the licorice business as the *Twizzlers*

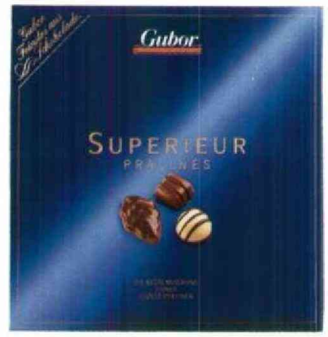


Hershey Canada productivity improvements were achieved through the Division's Total Quality Management program. Pictured are employees at the Smiths Falls, Ontario, Plant. Top photo: Bill Buffam and Lisa Vandusen, Shipping. Middle photo (from left): Sue Rocheleau, John Blair and Linda Keller, *Oh Henry!* chocolate bar manufacturing. Bottom photo (from left): Joanne Parisien and Cheryl Novak, Quality Assurance.

brand name was applied to all packaging and advertising for traditional *Twizzlers*, *Nibs* and *Goodies* candy products.

Despite overall industry weakness, the Division achieved record market share in the hard roll candy category from its *Life Savers* candy and *Breath Savers* mints brands.

Continued softness in the *Planters* shelled nut business during 1992 was the result of sensitivity to the *Planters'* price premium as lower priced, private label and regional brand competitors grew their market share positions in this declining category. Hershey Canada is addressing its marketing strategy in 1993 and intends to build on the strong brand equity in the *Planters* name to increase its leadership position in the shelled nut category.



Productivity Achievements

Throughout 1992, the Corporation's North American manufacturing strategy continued to generate increased productivity at Canadian manufacturing facilities and provide funds required for investment in marketing programs. This initiative involves modernizing Canadian manufacturing operations, capitalizing on synergies in production of similar items between the U.S. and Canada, and adding manufacturing flexibility in both countries.

Productivity improvements were also achieved through Hershey Canada's Total Quality Management program. Employee teams, established to improve the quality of customer service, are winning awards from Hershey Canada's customers.

Improved inventory practices have increased turnover, resulting in fresher product and more efficient use of assets. In addition, innovations in distribution and purchasing practices contributed to greater efficiencies, demonstrating Hershey Canada's commitment to continuous improvement in its operations and business results.

HERSHEY INTERNATIONAL

Hershey International achieved substantial sales growth during 1992, primarily as a result of excellent growth in export sales and the consolidation of results for Hershey Mexico, the remaining shares of which were acquired in October 1991.

Export sales growth was paced by the Far East region where South Korea and the Philippines were the leading markets, together with a new market which was established in New Zealand. Latin America remains one of the largest export regions for the Division with Mexico accounting for the major share of sales in this market.

A regional sales office was established in Miami, Fla., in 1992 to help focus attention on the South American and Mexican markets. Great success has been achieved in the Mexican border region through on-site management of store displays and the maintenance of good stock levels with customers.

In addition, new products and the development of specialized export packaging also helped drive 1992 export sales. *Hershey's* extra creamy milk chocolate bars have been especially successful in expanding the Division's presence in the Far East.

Major Marketing Efforts

The German confectionery market did not grow during 1992, reflecting the sluggishness of the German economy and an abnormally warm summer. However, a major marketing effort was conducted throughout the year which expanded distribution for the *Gubor* brand and resulted in sales and market share growth. The brand performed particularly well in the premium, mixed-assortment category which comprises a major portion of Gubor's sales. For the year, however, Gubor's sales and earnings did not meet expectations.

Hershey Mexico's sales and earnings also were lower than anticipated, as the Mexican chocolate confectionery market declined. During 1992, Hershey Mexico increased its marketing efforts and its share of the total market, while concentrating heavily on improving manufacturing efficiencies.

Gubor employees form a "Quality Through Excellence" startup team for implementation of Hershey's productivity process among all employees at the Corporation's manufacturing operations in Germany. From left: Helmut Bludszun, Utilities and Building Maintenance; Herbert Hofman, Manufacturing; Gabriele Kühnle-Radtke, Human Resources; Michael Kuck, Logistics; and Steve Bauer, Marketing.

Excellent Licensing Revenues

Licensing revenues exceeded expectations in 1992 as licensees achieved excellent results with *Hershey's* brand products. In Japan, Snow Brand Milk Products Co., Ltd. continued to have good success with *Hershey's* brand ice cream products. Maeil Dairy Industry Co., Ltd. in South Korea has proven to be a fine partner with its marketing and sales of *Hershey's* chocolate drink. Hai-Tai Confectionery Co., Ltd. also has had success with *Hershey's* brand candy bars in South Korea. All of these business partners are working diligently to realize the strong potential of the *Hershey's* brand in their markets.

Business Changes

In April 1992, Hershey International completed the sale of its Brazilian equity venture, Petybon S.A.

In December 1992, the Corporation and Fujiya Co., Ltd., of Tokyo, Japan, signed an agreement whereby the Corporation would acquire all of Fujiya's shares in Hershey Japan Co., Ltd., the Corporation's joint venture with Fujiya. Hershey Japan imports, markets, sells and distributes selected *Hershey's* chocolate and confectionery products in the Japanese market. The transaction, which was finalized in February 1993, resulted in 100 percent ownership of Hershey Japan by the Corporation.

As Hershey International looks ahead, the Division has focused its business interests, and is aggressively addressing the potential of its products in selected markets and developing specific products for international consumers.

HERSHEY REFRIGERATED PRODUCTS

Hershey Refrigerated Products had a solid year of sales growth and market share improvement in 1992, despite an evolving product category. Sales growth was achieved through the successful mid-year expansion of the regular *Hershey's* chocolate bar flavor puddings to national distribution and the introduction of *Hershey's Free*, a fat-free pudding offering.

Significant growth in the fat-free/light pudding market came at the expense of the regular pudding category, which for the first time experienced a decline in volume. The net result was single digit overall category growth.

Successful Introduction

The successful national launch of *Hershey's Free* chocolate bar flavor puddings was a highlight during 1992. It represented the first product launched by the Corporation to compete in the growing fat-free market.

Hershey's Free also is cholesterol-free and contains no artificial sweeteners, with each serving having only 100 calories. Introduced in three flavors, *Hershey's* chocolate, *Hershey's Kisses* chocolate and vanilla, and *Hershey's* chocolate fudge, *Hershey's Free* is a nutritious choice for consumers placing greater emphasis on a reduced-fat diet.

HERSHEY PASTA GROUP

Hershey Pasta Group had an excellent year in 1992, achieving record sales and earnings, while increasing its market share significantly in the U.S. pasta category.

Growth in existing markets, new market expansion, successful new product introductions, product line extensions and a modest price increase in April 1992 drove sales to record levels. Unit volume grew at nearly three times the industry rate and accounted for the major portion of the sales gain. Hershey Pasta Group's commitment to customer service, product quality and consumer value played an important role in achieving these volume gains.

Market Share Growth

Significant market share gains were made as Hershey Pasta Group narrowed the gap with the industry leader to less than one percent.

The branded category, led by *Light 'N Fluffy*, *American Beauty*, *San Giorgio* and *Ronzoni*, provided the largest portion of the sales volume growth. *Light 'N Fluffy* continued strong growth during the year and became the most popular noodle brand in the U.S. *American Beauty*,

San Giorgio and *Ronzoni* achieved solid growth in their core markets, and achieved geographic expansion during the year. The *Ronzoni* brand, the third largest pasta brand in the U.S., made a successful entry into the New England market during the year, and Hershey Pasta Group signed a contract to sponsor a *Ronzoni* pasta dinner in conjunction with the 1993 Boston Marathon. In 1992, over 15,000 runners attended a *Ronzoni* pasta dinner prior to the New York City Marathon.

The Division's private label business also showed solid growth as the grocery industry placed greater emphasis on this category.

New Products

New products, targeted at an increasingly diversified consumer base, also contributed to growth during 1992. *Healthy Ribbons*, a yolk-free, cholesterol-free

Managerial and technical representatives from the new Winchester, Va., pasta plant (under construction, above) development team (clockwise from top): Del Thacker, Mark Cahill, Ed Buchan, Bruce Miller, Lance Bell, Fred Stoner and Mark Lemmon.

alternative to egg noodles, was introduced during the year under the *American Beauty* brand name. *Ronzoni* Macarrones, a tubular cut pasta product, and *American Beauty* Fideo Cortado, a short, thin pasta product, were added to the product line targeting the growing Hispanic market. Angel Hair pasta, a very thin spaghetti, also joined the family of pasta offerings under the *Ronzoni*, *American Beauty*, *San Giorgio* and *P&R* brand names.

Imported pasta items continued to take a larger share of the U.S. pasta market in 1992. Hershey Pasta Group continues to be concerned about the impact international government subsidies have on products imported to the U.S. and tariffs applied to pasta products exported to other countries.

Improved Earnings

In April 1992, Hershey Pasta Group implemented a price increase averaging six percent on its pasta products primarily to cover increased costs for durum semolina wheat. Despite intense marketing activity, earnings rose largely as a result of higher sales volume and improved operating margins.

Capital Investment

Construction is on schedule at the Division's state-of-the-art production facility located near Winchester, Va. The new plant is expected to be fully operational in 1993.

Hershey Pasta Group continues to invest heavily in its manufacturing, marketing and training programs to deliver products of the highest quality and value, to provide excellent customer service, to implement superior manufacturing processes, and to sustain a highly-motivated and involved work force. These efforts are the key to improving the Division's competitive position in the grocery category through the '90s.

Employee team members comprise a highly-motivated work force at Hershey Pasta Group locations. Pictured: Denise Voshell (left) and Cheryle Shirk, Lebanon, Pa., Plant pasta press operation.

Hershey Foods Corporation

Financial Review

- **Record annual sales and net income – both up 11% versus 1991.**
- **Sales volume growth due to increased promotion and advertising expenditures.**
- **Sales gains from introduction of new products.**
- **Growth in net sales and net income per share in each quarter of 1992.**
- **Record capital additions for manufacturing capacity expansion and modernization.**
- **Eighteenth consecutive annual Common Stock dividend increase.**

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Management's Discussion and Analysis – Financial Review

Summary of Consolidated Operating Results

The Corporation achieved increased sales and net income in 1992 and 1991. Net sales during this two-year period increased at a compound annual rate of 9%, primarily reflecting volume growth from international acquisitions, new product introductions, and existing confectionery products, and confectionery price increases. The Corporation's pasta business also contributed to growth in sales and earnings during the period.

In March 1992, Hershey Chocolate U.S.A. increased by approximately 5% the wholesale price of its line of packaged candy products, the first increase since 1984. Hershey Chocolate U.S.A. had previously increased the wholesale price of its line of standard bars and certain other pack-types by approximately 12½% in February 1991. These product lines represented over 45% of the Corporation's annual sales in 1992. The price increases were intended to cover the rising costs of certain raw materials, petroleum-based packaging materials, fuel and employee benefits.

Net income, excluding the effect of a net gain on business restructuring in 1990, increased at a compound annual rate of 11% during the two-year period. This increase was a result of the growth in sales, an improved gross profit margin and a lower effective income tax rate, partially offset by higher levels of selling, marketing and administrative expenses.

Summary of Financial Position and Liquidity

The Corporation's financial position remained strong during 1992. The capitalization ratio (total short-term and long-term debt as a percent of stockholders' equity, short-term and long-term debt) was 27% as of December 31, 1992 and 22% as of December 31, 1991. The ratio of current assets to current liabilities was 1.3:1 as of December 31, 1992 and 1.6:1 as of December 31, 1991. The increase in the capitalization ratio was primarily due to higher short-term borrowings associated with the May 1992 purchase of an 18.6% interest in Freia Marabou a.s (Freia), the leading Scandinavian chocolate, confectionery and snack food company, for $179.1 million. The decrease in the current ratio reflects the borrowings for Freia and the current classification of certain long-term debt as discussed below.

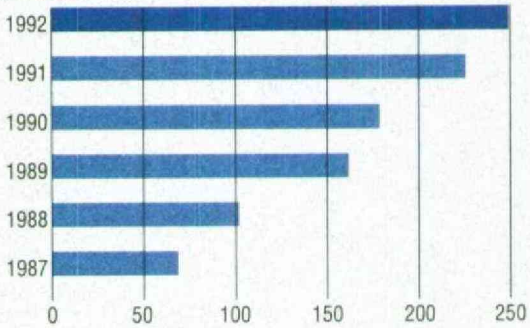
In October 1992, the Corporation announced that it was withdrawing its prior bid to acquire the remaining shares of Freia and had tendered its 18.6% interest to Kraft General Foods Holdings Norway, Inc. (KGF). Proceeds from the sale of the Corporation's interest in Freia are expected to be received in the spring of 1993 upon approval by the Norwegian government of KGF's ownership of Freia. A portion of the proceeds will be used for early repayment of $95.2 million of long-term debt. Accordingly, the investment and the debt have been classified as current assets and liabilities, respectively, as of December 31, 1992.

Historically, the Corporation's major source of financing has been cash generated from operations. Generally, seasonal working capital needs peak during the summer months and have been met by issuing commercial paper.

During 1992, the Corporation's cash and cash equivalents decreased by $47.0 million. Cash provided from operating activities, short-term borrowings, and cash and cash equivalents on hand at the beginning of the period were sufficient to finance capital additions, purchase the investment interest in Freia, and pay cash dividends.

During the three-year period ended December 31, 1992, the Corporation's cash and cash equivalents decreased by $28.4 million. Total debt increased by $302.9 million during this same period, reflecting the investment in Freia and several business acquisitions.

Capital Additions
(dollars in millions)



The Corporation anticipates that capital expenditures will be in excess of $200 million per annum during the next several years as a result of the expansion of facilities to support new products and continued modernization of existing facilities. As of December 31, 1992, the Corporation's principal capital commitments included construction of a finished goods production facility adjacent to its new chocolate-processing plant, a pasta plant, manufacturing capacity expansion and modernization.

In February 1991, the Corporation issued $100 million of 8.8% Debentures due 2021 (Debentures), under a Form S-3 Registration Statement (Registration Statement) which was declared effective in June 1990. As of December 31, 1992,

$100 million of additional debt securities remained available for issuance under the Registration Statement.

In the fourth quarter of 1991, the Corporation established an employee stock ownership trust (ESOP) to serve as the primary vehicle for the Corporation's contributions to its existing employee savings and stock investment plan for participating domestic salaried and hourly employees. The ESOP was funded by a 7.75% loan of $47.9 million from the Corporation. The proceeds from this loan were used by the ESOP to purchase from the Corporation 1,193,816 shares of its Common Stock at a market price of $40⅛ per share. This stock had been acquired by the Corporation through open market purchases. The Corporation began making contributions to the ESOP in 1992. Further discussion of the ESOP can be found in Note 9 to the consolidated financial statements.

Acquisitions and Divestiture

Operating results during the period were impacted by the following:

- May 1992 — Completed the acquisition of the 18.6% interest in Freia from Orkla a.s, a diversified Norwegian company. The investment was accounted for under the cost method in 1992. The Corporation expects to sell this interest to KGF during 1993.

- April 1992 — Completed the sale of Hershey do Brasil Participacoes Ltda., a holding company which owned a 41.7% equity interest in Petybon S.A., to the Bunge & Born Group for approximately $7.0 million. Petybon S.A., located in Brazil, is a producer of pasta, biscuits and margarine products.

- October 1991 — Purchased the shares of Nacional de Dulces, S.A. de C.V. (subsequently renamed Hershey Mexico, S.A. de C.V.) owned by its joint venture partner, Grupo Carso, S.A. de C.V. Prior to this transaction, the Corporation owned 50% of the stock. Hershey Mexico has its main offices and manufacturing plant in Guadalajara, Mexico. It produces, imports and markets chocolate products for the Mexican market under the *Hershey's* brand name.

- May 1991 — Acquired from Dairymen, Inc. certain assets of its ultra-high temperature fluid milk-processing business (aseptically-packaged drink business), including a Savannah, Georgia manufacturing facility.

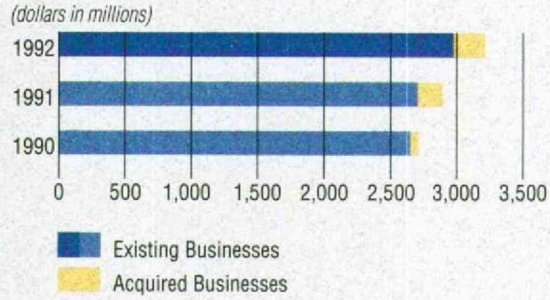
- May 1991 — Completed the acquisition of the Gubor Schokoladen GmbH and Gubor Schokoladenfabrik GmbH (Gubor) chocolate business from H. Bahlsens Keksfabrik KG. Gubor, which operates two manufacturing plants in Germany, produces and markets high-quality assorted pralines and seasonal chocolates under the *Gubor* brand name. The transaction was effective as of January 1, 1991.

- February 1990 — Acquired from Kraft General Foods, Inc. all of the outstanding voting securities of Ronzoni Foods Corporation.

A further discussion of these acquisitions and the divestiture can be found in Note 3 to the consolidated financial statements.

Contribution to Net Sales of Businesses Acquired 1990 - 1992

(dollars in millions)



Other Items

The most significant raw material used in the production of the Corporation's chocolate and confectionery products is cocoa beans. Generally, the Corporation has been able to offset the effects of increases in the cost of this raw material through selling price increases or reductions in product weights. Conversely, declines in the cost of cocoa beans have served as a source of funds to maintain selling price stability, enhance consumer value through increases in product weights, respond to competitive activity, develop new products and markets, and offset rising costs of other raw materials and expenses.

The cost of cocoa beans and the prices for the related commodity futures contracts historically have been subject to wide fluctuations attributable to a variety of factors,

including the effect of weather on crop yield, other imbalances between supply and demand, currency exchange rates and speculative influences. Over the last few years, the market prices of cocoa beans and cocoa futures have declined as a result of worldwide increases in stocks, as the annual cocoa bean crop exceeded demand for seven consecutive years. The 1991/1992 crop, however, resulted in a small deficit and another deficit is expected for the current crop. Prices in 1992 were relatively stable because of the remaining excess stocks and similar market conditions are expected to continue during the first part of 1993. The Corporation's costs will not necessarily reflect market price fluctuations because of its forward purchasing practices, premiums and discounts reflective of relative values, varying delivery times, and supply and demand for specific varieties and grades of cocoa beans.

Market prices for peanuts began the year at lower levels as compared to the prior year due to an excellent 1991 crop. Prices remained stable during 1992 on reports of favorable growing conditions and a good harvest of the 1992 crop in the fourth quarter. Prices are expected to remain relatively stable through most of 1993.

Effects of Inflation

The Corporation monitors the effects of inflation and takes various steps, including selling price and product weight changes, to minimize its impact on the Corporation's business. The use of the last-in, first-out (LIFO) method of inventory accounting for most inventories matches current costs with current revenues and, in periods of inflation, reduces income taxes and improves cash flow. The capital additions program, through investment in modern plant and equipment, provides for future sales growth and manufacturing efficiencies. These management practices have resulted in inflation having a minimal effect on comparative results of operations and financial condition for the most recent three years.

Capital Structure

The Corporation has two classes of stock outstanding, Common Stock and Class B Common Stock (Class B Stock). The Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors, with the Common Stock having one vote per share and the Class B Stock having ten votes per share. However, the Common Stock, voting separately as a class, is entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock is entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

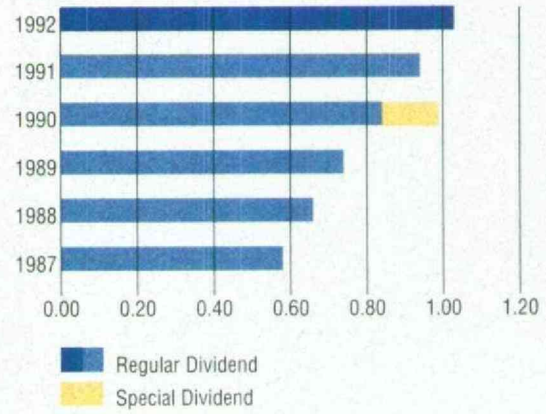
The Corporation's Common Stock is listed on the New York Stock Exchange (NYSE), which has a rule generally prohibiting dual classes of common stock. The Corporation's dual class structure has been grandfathered under this rule. In May 1992, the NYSE released for public comment a concept proposal under which dual class capital structures would be permitted, provided certain requirements were met, including approval of the structure by a majority of independent directors and disinterested stockholders. These approval requirements were met when the Corporation adopted its dual class structure in 1984. Additionally, the concept proposal would also grandfather the Corporation's and other listed companies' existing dual class structures.

Market Prices and Dividends

Cash dividends paid on the Corporation's Common Stock and Class B Stock were $91.4 million in 1992 and $83.4 million in 1991. The annual dividend rate on the Common Stock is $1.08 per share, an increase of 10% over the 1991 rate of $.98 per share. The 1992 dividend represents the 18th consecutive year of Common Stock dividend increases. In 1990, the Corporation paid a special dividend of $13.3 million as a result of the sale of its equity interest in AB Marabou (Marabou).

Dividends Paid Per Share of Common Stock

(dollars)



On February 2, 1993, the Corporation's Board of Directors declared a quarterly dividend of $.27 per share of Common Stock payable on March 15, 1993, to stockholders

of record as of February 26, 1993. It is the Corporation's 253rd consecutive Common Stock dividend. A quarterly dividend of $.245 per share of Class B Stock was also declared.

Hershey Foods Corporation's Common Stock is listed and traded principally on the NYSE under the ticker symbol "HSY." Approximately 24.1 million shares of the Corporation's Common Stock were traded during 1992. The closing price of the Common Stock on December 31, 1992 was $47. The Class B Stock is not publicly traded. There were 31,642 stockholders of record of the Common Stock and the Class B Stock as of December 31, 1992.

The following table shows the dividends paid per share of Common Stock and Class B Stock and the price range of the Common Stock for each quarter of the past two years:

	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
1992				
1st Quarter	**$ .245**	**$.2225**	**$45 1/4**	**$39 7/8**
2nd Quarter	**.245**	**.2225**	**42 1/8**	**38 1/4**
3rd Quarter	**.270**	**.2450**	**45 1/2**	**41 5/8**
4th Quarter	**.270**	**.2450**	**48 3/8**	**43 1/2**
	$1.030	**$.9350**		
1991				
1st Quarter	$ .225	$.2025	$42 3/8	$35 1/8
2nd Quarter	.225	.2025	43 7/8	39 5/8
3rd Quarter	.245	.2225	42 5/8	38 1/2
4th Quarter	.245	.2225	44 1/2	36 1/2
	$ .940	$.8500		

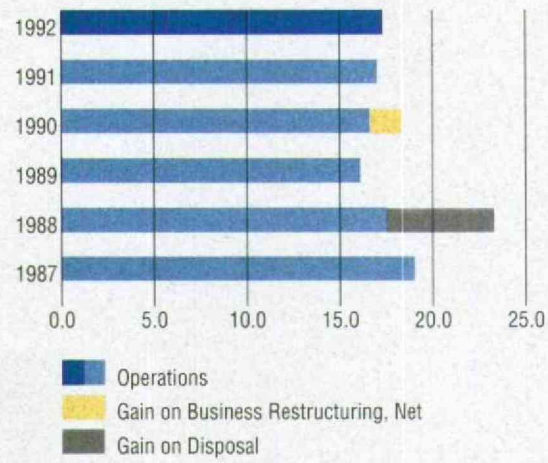
* NYSE – Composite Quotations for Common Stock by calendar quarter.

Operating Return on Average Stockholders' Equity

The Corporation's operating return on average stockholders' equity was 17.3% in 1992. Over the most recent six-year period, the return has ranged from 16.1% in 1989 to 19.0% in 1987. For the purpose of calculating operating return on average stockholders' equity, earnings is defined as net income, excluding the net gain on the sale of Friendly Ice Cream Corporation (Friendly) in 1988 and the net gain on business restructuring in 1990.

Return on Average Stockholders' Equity

(percent)

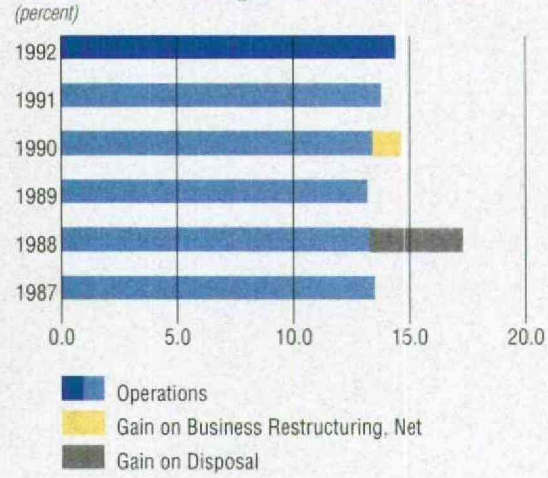


Operating Return on Average Invested Capital

The Corporation's operating return on average invested capital was 14.4% in 1992. Over the most recent six-year period, the return has ranged from 13.2% in 1989 to 14.4% in 1992. Average invested capital consists of the annual average of beginning and ending balances of long-term debt, deferred income taxes and stockholders' equity. For the purpose of calculating operating return on average invested capital, earnings is defined as the sum of net income, excluding the net gains on the sale of Friendly and business restructuring, and the after-tax effect of interest on long-term debt.

Return on Average Invested Capital

(percent)



Hershey Foods Corporation

Consolidated Statements of Income

(in thousands of dollars except per share amounts)

For the years ended December 31,	1992	1991	1990
Net Sales	**$3,219,805**	$2,899,165	$2,715,609
Costs and Expenses:			
Cost of sales	**1,833,388**	1,694,404	1,588,360
Selling, marketing and administrative	**958,189**	814,459	776,668
Total costs and expenses	**2,791,577**	2,508,863	2,365,028
Gain on Business Restructuring, Net	—	—	35,540
Income before Interest and Income Taxes	**428,228**	390,302	386,121
Interest expense, net	**27,240**	26,845	24,603
Income before Income Taxes	**400,988**	363,457	361,518
Provision for income taxes	**158,390**	143,929	145,636
Net Income	**$ 242,598**	$ 219,528	$ 215,882
Net Income per Share	**$ 2.69**	$ 2.43	$ 2.39

Cash Dividends Paid per Share:			
Common Stock—Regular	**$ 1.030**	$ .940	$ .840
Common Stock—Special	—	—	.150
Class B Common Stock—Regular	**.935**	.850	.755
Class B Common Stock—Special	—	—	.135

The notes to consolidated financial statements are an integral part of these statements.

Management's Discussion and Analysis – Results of Operations

Net Sales

Net sales rose $320.6 million or 11% in 1992 and $183.6 million or 7% in 1991. The increase in 1992 was due to volume growth from existing brands, sales of new products, confectionery price increases, and the consolidation of Hershey Mexico, the remaining shares of which were acquired in late 1991. The increase in 1991 reflected growth from business acquisitions, confectionery selling price increases, and volume growth from the Corporation's pasta, international and refrigerated puddings businesses.

Costs and Expenses

Cost of sales as a percent of net sales decreased to 56.9% in 1992 from 58.4% in 1991 and 58.5% in 1990. The resulting increase in gross margin in 1992 was primarily due to lower costs for certain major raw materials, confectionery price increases, and manufacturing efficiencies. The increase in gross margin in 1991 reflected confectionery price increases almost entirely offset by a higher average cost per pound of peanuts and cocoa beans, as well as increases in overhead and employee benefits costs.

Selling, marketing and administrative costs increased in 1992, primarily reflecting higher promotion and advertising expenses related to the sales volume growth and the introduction of new products. The increase in selling, marketing and administrative costs in 1991 was a result of business acquisitions and increased promotion expenses offset somewhat by lower advertising expenses.

Gain on Business Restructuring, Net

The Corporation's financial results for 1990 included a net pre-tax gain from business restructuring activities totaling $35.5 million. This gain, which increased net income by $20.3 million is discussed further in Note 2 to the consolidated financial statements.

Interest Expense, Net

Net interest expense was $.4 million higher in 1992 than 1991, due to higher levels of short-term borrowings, offset partially by lower short-term interest rates, lower long-term interest expense, and an increase in capitalized interest. The increase in short-term debt was a result of the Corporation's May 1992 purchase of an 18.6% interest in Freia and interim borrowings to finance capital additions. Long-term interest expense was below 1991 reflecting repayments of long-term debt. A cumulative increase in capital expenditures resulted in significantly higher capitalized interest in 1992 versus 1991.

Net interest expense increased by $2.2 million in 1991 as a result of additional debt required on an interim basis to finance capital additions, working capital requirements and business acquisitions, offset partially by higher capitalized interest.

Provision for Income Taxes

The Corporation's effective income tax rate was 39.5%, 39.6% and 40.3% in 1992, 1991 and 1990, respectively. The principal factors causing differences in the effective income tax rates among the years were a tax benefit in 1992 associated with the sale of the Corporation's equity interest in its Brazilian joint venture, changes in the mix of the Corporation's income among various tax jurisdictions and increases in non-taxable income. These changes more than offset an increase in the Pennsylvania corporate income tax rate in 1991.

Net Income

Net income increased $23.1 million or 11% in 1992. Excluding the effect of the 1990 net gain on business restructuring, net income increased $23.9 million or 12% in 1991. Net income as a percent of net sales was 7.5% in 1992, 7.6% in 1991, and 7.2% in 1990 after excluding the net gain on business restructuring.

Consolidated Statements of Cash Flows

(in thousands of dollars)

For the years ended December 31,	1992	1991	1990
Cash Flows Provided from (Used by) Operating Activities			
Net income	$ 242,598	$ 219,528	$ 215,882
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	97,087	85,413	73,889
Deferred income taxes	21,404	20,654	(8,257)
Gain on business restructuring, net	—	—	(35,540)
Changes in assets and liabilities, net of effects from business acquisitions:			
Accounts receivable—trade	(13,841)	(6,404)	(21,028)
Inventories	(20,262)	(43,949)	(61,447)
Accounts payable	(10,715)	4,070	23,300
Other assets and liabilities	(20,707)	94,270	(5,398)
Other, net	649	(26,242)	5,105
Net Cash Provided from Operating Activities	296,213	347,340	186,506
Cash Flows Provided from (Used by) Investing Activities			
Capital additions	(249,795)	(226,071)	(179,408)
Business acquisitions	—	(44,108)	(78,153)
Sale of equity interest	—	—	78,041
Purchase of investment interest	(179,076)	—	—
Other, net	6,581	(1,510)	(4,501)
Net Cash (Used by) Investing Activities	(422,290)	(271,689)	(184,021)
Cash Flows Provided from (Used by) Financing Activities			
Net increase in short-term debt	201,425	56,489	1,131
Long-term borrowings	1,259	23,620	77,117
Repayment of long-term debt	(32,173)	(27,861)	(18,567)
Repayment of assumed debt	—	—	(250)
Loan to ESOP	—	(47,902)	—
Proceeds from sale of Common Stock to ESOP	—	47,902	—
Cash dividends paid	(91,444)	(83,401)	(87,757)
Net Cash Provided from (Used by) Financing Activities	79,067	(31,153)	(28,326)
Increase (Decrease) in Cash and Cash Equivalents	(47,010)	44,498	(25,841)
Cash and Cash Equivalents as of January 1	71,124	26,626	52,467
Cash and Cash Equivalents as of December 31	$ 24,114	$ 71,124	$ 26,626
Interest Paid	$ 29,515	$ 24,468	$ 26,085
Income Taxes Paid	$ 151,490	$ 119,038	$ 147,099

The notes to consolidated financial statements are an integral part of these statements.

Management's Discussion and Analysis – Cash Flows

Summary

Over the past three years, cash requirements for capital additions, dividend payments, purchase of an investment interest in Freia, and several business acquisitions exceeded cash provided from operating activities and the sale of the Corporation's equity interest in Marabou in 1990 by $311.1 million. Total debt, including debt assumed in business acquisitions, increased during the period by $302.9 million. Cash and cash equivalents decreased by $28.4 million during the period.

The Corporation's cash provided from operations during the year is affected by seasonal sales patterns. Chocolate and confectionery seasonal and holiday related sales have typically been highest during the third and fourth quarters of the year, representing the principal seasonal effect. Generally, the Corporation's seasonal working capital needs peak during the summer months and have been met by issuing commercial paper.

Operating Activities

Depreciation and amortization have increased significantly as a result of continuous investment in capital additions and business acquisitions. Cash requirements for accounts receivable and inventories have tended to fluctuate during the three-year period based on sales during December and inventory management practices. The 1992 increase in cash used for other assets and liabilities was primarily related to commodities transactions and payment of income taxes. The 1991 increase in cash flow provided from other assets and liabilities was primarily related to commodities transactions and a corporate owned life insurance program.

Investing Activities

Investing activities included capital additions, the purchase of the 18.6% investment interest in Freia in May 1992, several business acquisitions and, in 1990, the gross proceeds from the sale of the Corporation's equity interest in Marabou. The income taxes paid in 1990 on the Marabou gain were included in operating activities. Capital additions during the past three years included manufacturing equipment, construction of new facilities and expansion of existing facilities. Cash used for business acquisitions reflected current assets, property, plant and equipment, and intangibles acquired, net of liabilities assumed. Businesses acquired during the past three years included Gubor, the aseptically-packaged drink business and Hershey Mexico in 1991, and Ronzoni in 1990.

Financing Activities

Financing activities included debt borrowings and repayments, payment of dividends and, in 1991, ESOP transactions. In each of the past three years, short-term borrowings in the form of commercial paper or bank borrowings were necessary to fund seasonal working capital requirements. Commercial paper borrowings increased significantly in 1992 due to the purchase of the investment interest in Freia. In February 1991, the Corporation issued $100 million of Debentures under its Form S-3 Registration Statement which was declared effective in June 1990. A portion of the proceeds from issuance of the Debentures was used to repay $76.7 million of domestic commercial paper borrowings which were classified as long-term debt as of December 31, 1990.

During 1991, the Corporation established an ESOP to serve as the primary vehicle for the Corporation's contributions to its existing employee savings and stock investment plan for participating domestic salaried and hourly employees. The ESOP was funded by a 7.75% loan of $47.9 million from the Corporation. The proceeds from this loan were used by the ESOP to purchase from the Corporation 1,193,816 shares of its Common Stock at a market price of $40⅛ per share. This stock had been acquired by the Corporation through open market purchases. The Corporation began making contributions to the ESOP in 1992. ESOP loan payments are due quarterly through 2006.

In 1990, the Corporation paid a one-time special dividend of $13.3 million from the $52.8 million of after-tax proceeds realized upon the sale of the Corporation's equity interest in Marabou. Regular cash dividends paid increased 10% in 1992 over 1991 and 12% in 1991 over 1990.

Consolidated Balance Sheets

(in thousands of dollars)

December 31,	1992	1991
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 24,114	$ 71,124
Accounts receivable—trade	173,646	159,805
Inventories	457,179	436,917
Prepaid expenses and other	105,966	76,633
Investment interest	179,076	—
Total current assets	939,981	744,479
Property, Plant and Equipment, Net	1,295,989	1,145,666
Intangibles Resulting from Business Acquisitions	399,768	421,694
Other Assets	37,171	29,983
	$2,672,909	$2,341,822
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 127,175	$ 137,890
Accrued liabilities	240,816	226,267
Accrued income taxes	5,682	22,000
Short-term debt	259,045	57,620
Current portion of long-term debt	104,224	26,955
Total current liabilities	736,942	470,732
Long-term Debt	174,273	282,933
Other Long-term Liabilities	92,950	80,907
Deferred Income Taxes	203,465	171,999
Total liabilities	1,207,630	1,006,571
Stockholders' Equity:		
Preferred Stock, outstanding shares: none in 1992 and 1991	—	—
Common Stock, outstanding shares: 74,929,057 in 1992 and 74,921,282 in 1991	74,929	74,921
Class B Common Stock, outstanding shares: 15,257,279 in 1992 and 15,265,054 in 1991	15,257	15,265
Additional paid-in capital	52,129	52,509
Cumulative foreign currency translation adjustments	2,484	26,424
Unearned ESOP compensation	(44,708)	(47,902)
Retained earnings	1,365,188	1,214,034
Total stockholders' equity	1,465,279	1,335,251
	$2,672,909	$2,341,822

The notes to consolidated financial statements are an integral part of these balance sheets.

Management's Discussion and Analysis – Financial Condition

Assets

Total assets increased $331.1 million or 14% as of December 31, 1992, primarily as a result of increases in current assets and capital additions.

Current assets increased $195.5 million as of December 31, 1992, primarily due to the 1992 purchase of a $179.1 million investment interest in Freia, which has been classified as a current asset, and an increase in other current assets. The increase in other current assets was primarily related to commodity transactions.

The $150.3 million net increase in property, plant and equipment was primarily the result of capital additions of $249.8 million in 1992 and depreciation expense of $84.4 million.

Liabilities

Total liabilities increased $201.1 million or 20% as of December 31, 1992, primarily due to higher current liabilities.

Current liabilities increased $266.2 million as a result of higher short-term debt and current portion of long-term debt balances. The $201.4 million increase in short-term debt was principally a result of domestic commercial paper borrowings to purchase the investment interest in Freia and interim borrowings to finance capital additions. The increase of $77.3 million in the current portion and the $108.7 million decline in the long-term portion of debt principally reflects the current classification of $95.2 million of long-term debt which will be repaid early using the proceeds from the sale of the Freia investment interest.

The deferred income tax liability as of December 31, 1992 and 1991 has been provided based upon statutory corporate income tax rates in effect at the time of the underlying transactions. The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS No. 109), which must be adopted in 1993 and will modify the way the Corporation accounts for income taxes. Among other provisions, FAS No. 109 requires that tax liabilities be stated at income tax rates currently in effect and allows for either the recording of the entire catch-up effect in the year of adoption or retroactive restatement of prior financial statements. Upon adopting the new accounting rules, the Corporation will record the entire catch-up effect. Management believes that based on the current Federal statutory corporate income tax rate, the adoption will have a favorable impact of approximately $8.0 million on net income in 1993.

The FASB has also issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions" (FAS No. 106). FAS No. 106 must be adopted in 1993 and requires that the expected cost of post-retirement benefits be accrued during the years that employees render the necessary service. Presently, the Corporation expenses these benefits as paid.

As further discussed in Note 8, the Corporation intends to adopt FAS No. 106 effective January 1, 1993 by means of a cumulative catch-up adjustment. Management expects the accumulated post-retirement benefit obligation as of the implementation date to be approximately $190.0 million, resulting in a one-time charge of approximately $110.0 million after income taxes. In 1993, the incremental expense under FAS No. 106 is expected to be approximately $8.0 million after income taxes. The adoption of this standard will have no effect on the Corporation's cash flows.

Stockholders' Equity

Total stockholders' equity rose 10% in 1992 and has increased at a compound annual rate of 12% over the past five years.

Consolidated Statements of Stockholders' Equity

(in thousands of dollars)	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Cumulative Foreign Currency Translation Adjustments	Unearned ESOP Compensation	Retained Earnings	Total Stockholders' Equity
Balance as of January 1, 1990	$ —	$74,907	$15,279	$50,212	$ 26,870	$ —	$ 949,782	$1,117,050
Net income							215,882	215,882
Dividends:								
Common Stock, $.990 per share							(74,161)	(74,161)
Class B Common Stock, $.890 per share							(13,596)	(13,596)
Foreign currency translation adjustments					(675)			(675)
Conversion of Class B Common Stock into Common Stock		3	(3)					—
Incentive plan transactions				(963)				(963)
Balance as of December 31, 1990	—	74,910	15,276	49,249	26,195	—	1,077,907	1,243,537
Net income							219,528	219,528
Dividends:								
Common Stock, $.940 per share							(70,426)	(70,426)
Class B Common Stock, $.850 per share							(12,975)	(12,975)
Foreign currency translation adjustments					229			229
Conversion of Class B Common Stock into Common Stock		11	(11)					—
Incentive plan transactions				(446)				(446)
Employee stock ownership trust transactions				3,706		(47,902)		(44,196)
Balance as of December 31, 1991	—	74,921	15,265	52,509	26,424	(47,902)	1,214,034	1,335,251
Net income							242,598	242,598
Dividends:								
Common Stock, $1.030 per share							(77,174)	(77,174)
Class B Common Stock, $.935 per share							(14,270)	(14,270)
Foreign currency translation adjustments					(23,940)			(23,940)
Conversion of Class B Common Stock into Common Stock		8	(8)					—
Incentive plan transactions				(741)				(741)
Employee stock ownership trust transactions				361		3,194		3,555
Balance as of December 31, 1992	$ —	$74,929	$15,257	$52,129	$ 2,484	$(44,708)	$1,365,188	$1,465,279

The notes to consolidated financial statements are an integral part of these statements.

1. Summary of Significant Accounting Policies

Significant accounting policies employed by the Corporation are discussed below and in other notes to the consolidated financial statements. Certain reclassifications have been made to prior year amounts to conform to the 1992 presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries after elimination of intercompany accounts and transactions. Investments in affiliated companies are accounted for using the equity method.

Cash Equivalents

All highly liquid debt instruments purchased with a maturity of three months or less are classified as cash equivalents.

Commodities Futures and Options Contracts

In connection with the purchasing of major commodities (principally cocoa and sugar) for anticipated manufacturing requirements, the Corporation enters into commodities futures and options contracts as deemed appropriate to reduce the risk of future price increases. These futures and options contracts are accounted for as hedges and, accordingly, gains and losses are deferred and recognized in cost of sales as part of the product cost.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of buildings, machinery and equipment is computed using the straight-line method over the estimated useful lives.

Intangibles Resulting from Business Acquisitions

Intangible assets resulting from business acquisitions principally consist of the excess of the acquisition cost over the fair value of the net assets of businesses acquired (goodwill). Goodwill is amortized on a straight-line basis over 40 years. Other intangible assets are amortized on a straight-line basis over their estimated useful lives.

Accumulated amortization of intangible assets resulting from business acquisitions was $61.2 million and $50.1 million as of December 31, 1992 and 1991, respectively.

Foreign Currency Translation

Results of operations for international entities are translated using the average exchange rates during the period. For international entities operating in non-highly inflationary economies, assets and liabilities are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Resulting translation adjustments are recorded in a separate component of stockholders' equity, "Cumulative Foreign Currency Translation Adjustments."

Foreign Exchange Contracts

The Corporation enters into foreign exchange contracts to hedge transactions denominated in international currencies and to hedge payment of intercompany transactions with its non-domestic subsidiaries. Gains and losses are recognized as part of the underlying transactions. In entering into these contracts the Corporation has assumed the risk which might arise from the possible inability of counterparties to meet the terms of their contracts. The Corporation does not expect any losses as a result of counterparty defaults.

As of December 31, 1992, the Corporation had contracts maturing in 1993 and 1994 to purchase at contracted forward rates $57.2 million in foreign currency, primarily Canadian dollars and British sterling, and to sell at contracted forward rates $238.9 million in foreign currency, related to Norwegian kroner expected to be received from the sale of the Corporation's investment interest in Freia Marabou a.s (Freia) as discussed below.

License Agreements

The Corporation has entered into license agreements under which it has access to proprietary technology and manufactures and/or markets and distributes certain products. The Corporation's rights under these agreements are extendable on a long-term basis at the Corporation's option subject to certain conditions, including minimum sales levels. License fees and royalties, payable under the terms of the agreements, are expensed as incurred.

2. Gain on Business Restructuring, Net

The Corporation's financial results for 1990 included a net pre-tax gain from business restructuring activities totaling $35.5 million. This gain, which increased net income by $20.3 million, resulted from two events. In May 1990, the Corporation sold its equity interest in AB Marabou for $78.0 million. The sale resulted in a gain of $60.5 million and had the effect of increasing net income by $35.3 million. In the fourth quarter of 1990, the Corporation recorded a manufacturing restructuring charge of $25.0 million associated with the modernization and relocation of certain manufacturing operations. This charge reduced net income by $15.0 million.

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3. Acquisitions and Divestiture

In May 1992, the Corporation acquired an 18.6% interest in Freia from Orkla a.s, a diversified Norwegian company, for $179.1 million. The investment was accounted for under the cost method in 1992.

In October 1992, the Corporation announced that it was withdrawing its prior bid to acquire the remaining shares of Freia and had tendered its 18.6% interest to Kraft General Foods Holdings Norway, Inc. (KGF). The KGF offer is subject to certain conditions, including approval by the Norwegian government of KGF's ownership of Freia which is expected in the spring of 1993. The price will be adjusted for interest to be earned from the date of tender until the payment date. The sale of the Corporation's Freia shares will result in a one-time, pre-tax gain of approximately $80.0 million.

In April 1992, the Corporation completed the sale of Hershey do Brasil Participacoes Ltda., a holding company which owned a 41.7% equity interest in Petybon S.A., to the Bunge & Born Group for approximately $7.0 million. Petybon S.A., located in Brazil, is a producer of pasta, biscuits and margarine products. The sale resulted in a modest pre-tax gain and a reduction in the effective income tax rate of .8% for 1992.

In accordance with the purchase method of accounting, the purchase prices of the acquisitions summarized below were allocated to the underlying assets and liabilities at the date of acquisition based on their estimated respective fair values. Results subsequent to the dates of acquisition are included in the consolidated financial statements. Had the results of these acquisitions been included in consolidated results for the entire length of each period presented, the effect would not have been material.

In October 1991, the Corporation purchased the shares of Nacional de Dulces, S.A. de C.V. (NDD) owned by its joint venture partner, Grupo Carso, S.A. de C.V., for $10.0 million. Prior to the acquisition, the Corporation owned 50% of the outstanding stock of NDD. Subsequent to the acquisition, NDD was renamed Hershey Mexico, S.A. de C.V. (Hershey Mexico). Hershey Mexico has its main offices and manufacturing plant in Guadalajara, Mexico. It produces, imports and markets chocolate products for the Mexican market under the *Hershey's* brand name.

In May 1991, the Corporation purchased certain assets of Dairymen, Inc.'s ultra-high temperature fluid milk-processing business, including a Savannah, Georgia manufacturing facility for $2.2 million, plus the assumption of $8.5 million in debt.

Also in May 1991, the Corporation completed the acquisition of the Gubor Schokoladen GmbH and Gubor Schokoladenfabrik GmbH (Gubor) chocolate business from H. Bahlsens Keksfabrik KG for $31.9 million, plus the assumption of $9.0 million in debt. Gubor manufactures and markets high-quality assorted pralines and seasonal chocolates in Germany. The acquisition was effective as of January 1, 1991.

In February 1990, the Corporation purchased all of the outstanding voting securities of Ronzoni Foods Corporation from Kraft General Foods, Inc. for $78.2 million, plus the assumption of $3.7 million in debt.

4. Interest Expense

Interest expense, net consisted of the following:

For the years ended December 31,	1992	1991	1990
(in thousands of dollars)			
Long-term debt and lease obligations	$ 30,435	$ 32,252	$ 24,258
Short-term debt	11,328	7,403	7,936
Capitalized interest	(12,055)	(10,386)	(5,875)
	29,708	29,269	26,319
Interest income	(2,468)	(2,424)	(1,716)
Interest expense, net	$ 27,240	$ 26,845	$ 24,603

5. Short-term Debt

Generally the Corporation's short-term borrowings are in the form of commercial paper or bank loans with an original maturity of three months or less. The Corporation maintained lines of credit arrangements with commercial banks, under which it could borrow up to $377 million as of December 31, 1992 and up to $168 million as of December 31, 1991 at the lending banks' prime commercial interest rates or lower. These lines of credit, which may be used to support commercial paper borrowings, may be terminated at the option of the Corporation. The Corporation had outstanding domestic commercial paper borrowings and short-term international bank loans against these lines of credit of $259.0 million and $57.6 million as of December 31, 1992 and 1991, respectively.

Lines of credit were supported by commitment fee arrangements. The fees were generally 1/8% per annum of the commitment. There were no significant compensating balance agreements which legally restricted these funds.

As a result of maintaining a consolidated cash management system, the Corporation maintains overdraft positions at certain banks. Such overdrafts, which were included in accounts payable, were $22.0 million and $23.5 million as of December 31, 1992 and 1991, respectively.

6. Long-term Debt

Long-term debt consisted of the following:

December 31,	1992	1991
(in thousands of dollars)		
Medium-term Notes, 8.45% to 9.92%, due 1992-1998	$ 55,400	$ 73,800
9.5% Sinking Fund Debentures due 2009	42,000	49,500
9.125% Sinking Fund Debentures due 2016	50,000	50,000
8.8% Debentures due 2021	100,000	100,000
Other obligations, net of unamortized debt discount	31,097	36,588
	278,497	309,888
Less — current portion	104,224	26,955
Total long-term debt	$174,273	$282,933

The Corporation intends to use a portion of the proceeds from the sale of its investment interest in Freia for early repayment of $95.2 million of long-term debt during 1993. Accordingly, these borrowings were classified as current as of December 31, 1992.

Aggregate annual maturities and sinking fund requirements during the next five years, including the long-term debt expected to be repaid in 1993 with the proceeds from the sale of the Freia investment interest, are: 1993, $104.2 million; 1994, $14.2 million; 1995, $7.5 million; 1996, $2.1 million; and 1997, $15.9 million. The Corporation's debt is principally unsecured and of equal priority. None of the debt is convertible into stock of the Corporation. The Corporation is in compliance with all covenants included in the related debt agreements.

7. Income Taxes

The provision for income taxes is based on income before income taxes as reported in the consolidated statements of income. Tax credits are recognized as a reduction in the provision using the flow-through method.

Deferred income taxes are provided to reflect timing differences between reported results of operations for financial statement and income tax purposes. Timing differences related primarily to accelerated depreciation and, in 1990, the manufacturing restructuring charge. The provision for income taxes was as follows:

For the years ended December 31, (in thousands of dollars)	1992	1991	1990
Current:			
Federal	$104,223	$ 96,074	$121,924
State	30,968	25,128	17,580
International	1,795	2,073	14,389
Current provision for income taxes	136,986	123,275	153,893
Deferred:			
Federal	11,770	12,618	(3,185)
State	4,579	6,111	6,726
International	5,055	1,925	(11,798)
Deferred provision (benefit) for income taxes	21,404	20,654	(8,257)
Total provision for income taxes	$158,390	$143,929	$145,636

The following table reconciles the Federal statutory income tax rate with the Corporation's effective income tax rate:

For the years ended December 31,	1992	1991	1990
Federal statutory tax rate	34.0%	34.0%	34.0%
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	6.0	5.5	4.4
Non-deductible acquisition costs	0.9	1.0	1.0
Sale of equity interest	(0.8)	—	—
Corporate owned life insurance	(1.0)	(1.1)	(0.5)
Other, net	0.4	0.2	1.4
Effective income tax rate	39.5%	39.6%	40.3%

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS No. 109). FAS No. 109 accounting and disclosure rules must be adopted in 1993. Among other provisions, FAS No. 109 requires that tax liabilities be stated at income tax rates currently in effect and allows for either the recording of the entire catch-up effect in the year of adoption or retroactive restatement of prior financial statements. Upon adopting the new accounting rules, the Corporation will record the entire catch-up effect. Management believes that based on the current Federal statutory corporate income tax rate, the adoption will have a favorable impact of approximately $8.0 million on net income in 1993.

8. Retirement Plans and Other Benefits

The Corporation and its subsidiaries sponsor a number of defined benefit retirement plans covering substantially all employees. Plans covering most domestic salaried and hourly employees provide retirement benefits based on individual account balances which are increased annually by pay-related and interest credits. Plans covering certain non-domestic employees provide retirement benefits based on career average pay, final pay, or final average pay as defined within the provisions of the individual plans. The Corporation also participates in several multi-employer retirement plans which provide defined benefits to employees covered under certain collective bargaining agreements.

The Corporation's policy is to fund domestic pension liabilities in accordance with the minimum and maximum limits imposed by the Employee Retirement Income Security Act of 1974 and Federal income tax laws. Non-domestic pension liabilities are funded in accordance with applicable local laws and regulations. Plan assets are invested in a broadly diversified portfolio consisting primarily of domestic and international common stocks and fixed income securities.

Pension expense included the following components:

For the years ended December 31,	**1992**	1991	1990
(in thousands of dollars)			
Service cost	**$ 22,858**	$ 20,056	$ 19,369
Interest cost on projected benefit obligation	**24,098**	22,148	18,392
Investment loss (return) on plan assets	**(12,331)**	(53,627)	2,427
Net amortization and deferral	**(15,245)**	30,161	(27,420)
Corporate sponsored plans	**19,380**	18,738	12,768
Multi-employer plans	**580**	1,231	1,603
Other	**630**	645	801
Total pension expense	**$ 20,590**	$ 20,614	$ 15,172

The funded status and amounts recognized in the consolidated balance sheets for the retirement plans were as follows:

	December 31, 1992		December 31, 1991	
	Assets Exceed Accumulated Benefits	**Accumulated Benefits Exceed Assets**	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
(in thousands of dollars)				
Actuarial present value of:				
Vested benefit obligation	**$1,643**	**$319,635**	$238,780	$ 32,524
Accumulated benefit obligation	**$1,987**	**$344,091**	$254,468	$ 39,406
Actuarial present value of projected benefit obligation	**$3,255**	**$375,715**	$280,647	$ 48,020
Plan assets at fair value	**2,566**	**305,255**	295,743	9,554
Plan assets greater than (less than) projected benefit obligation	**(689)**	**(70,460)**	15,096	(38,466)
Net (gain) loss unrecognized at date of transition	**(79)**	**1,306**	(1,809)	3,255
Prior service cost not yet recognized in earnings	**6**	**12,815**	6,864	959
Unrecognized net (gain) loss from past experience different than that assumed	**708**	**29,664**	(11,118)	5,835
Minimum liability adjustment	**—**	**(18,999)**	—	(5,300)
Prepaid pension expense (pension liability)	**$ (54)**	**$(45,674)**	$ 9,033	$(33,717)

The projected benefit obligation for the plans was determined principally using a discount rate of 7.0% and 7.5% as of December 31, 1992 and 1991, respectively. For both 1992 and 1991 the assumed long-term compensation increase rate and the assumed long-term rate of return on plan assets were primarily 6.0% and 9.5%, respectively.

The Corporation and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Corporation's domestic employees become eligible for these benefits at early retirement age. Retiree health care benefits and life insurance premiums of $5.4 million, $4.3 million and $3.6 million, were expensed as paid during 1992, 1991 and 1990, respectively.

The FASB has issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions" (FAS No. 106). FAS No. 106 must be adopted in 1993 and requires that the expected cost of post-retirement benefits be accrued during the years that employees render the necessary service.

The Corporation intends to adopt FAS No. 106 effective January 1, 1993 by means of a cumulative catch-up adjustment. Management expects the accumulated post-retirement benefit obligation as of the implementation date to be approximately $190.0 million, resulting in a one-time charge of approximately $110.0 million after income taxes. In 1993, the incremental expense under FAS No. 106 is expected to be approximately $8.0 million after income taxes. The adoption of this standard will have no effect on the Corporation's cash flows.

As part of its long-range financing plans, the Corporation, in 1989, implemented a corporate owned life insurance program covering most of its domestic employees. After paying employee death benefits, proceeds from this program will be available for general Corporate purposes and may be used to offset future employee benefits costs, including retiree medical benefits. The Corporation's investment in corporate owned life insurance policies was recorded net of policy loans in other assets, and interest accrued on the policy loan was included in accrued liabilities as of December 31, 1992. Net life insurance expense, including interest expense, was included in selling, marketing and administrative expenses.

9. Employee Stock Ownership Trust

In 1991, the Corporation established an employee stock ownership trust (ESOP) to serve as the primary vehicle for the Corporation's contributions to its existing employee savings and stock investment plan for participating domestic salaried and hourly employees. The ESOP was funded by a 15-year 7.75% loan of $47.9 million from the Corporation. The proceeds from this loan were used by the ESOP to purchase, at a market price of $40 ⅛ per share, 1,193,816 shares of the Corporation's Common Stock which it had previously acquired through open market purchases.

During 1992, the ESOP received a combination of dividends on unallocated shares and contributions from the Corporation equal to the amount required to meet its principal and interest payments under the loan. Simultaneously, the ESOP allocated to participants 79,588 shares of Common Stock. The Corporation recognized net compensation expense equal to the shares allocated multiplied by the original cost of $40 ⅛ per share less dividends received by the ESOP on unallocated shares. Dividends paid on ESOP shares were $.9 million in 1992. The unearned ESOP compensation balance as of December 31, 1992 represented deferred compensation expense to be recognized by the Corporation in future years as additional shares are allocated to participants.

10. Capital Stock and Net Income Per Share

As of December 31, 1992, the Corporation had 530,000,000 authorized shares of capital stock. Of this total, 450,000,000 shares were designated as Common Stock, 75,000,000 shares as Class B Common Stock (Class B Stock), and 5,000,000 shares as Preferred Stock, each class having a par value of one dollar per share. As of December 31, 1992, there was a combined total of 90,186,336 shares of both classes of common stock outstanding. No shares of the Preferred Stock were issued or outstanding during the three-year period ended December 31, 1992.

The Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors, with the Common Stock having one vote per share and the Class B Stock having ten votes per share. However, the Common Stock, voting separately as a class, is entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock is entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

Class B Stock can be converted into Common Stock on a share-for-share basis at any time. During 1992, 1991 and 1990, a total of 7,775, 11,350 and 2,900 shares, respectively, of Class B Stock were converted into Common Stock.

Hershey Trust Company, as Trustee for Milton Hershey School, as institutional fiduciary for estates and trusts unrelated to Milton Hershey School, and as direct owner of investment shares, held a total of 23,428,494 shares of the Common Stock, and as Trustee for Milton Hershey School, held 15,153,003 shares of the Class B Stock as of December 31, 1992, and is entitled to cast approximately 77% of the total votes of both classes of the Corporation's common stock. Hershey Trust Company, as Trustee for Milton Hershey School, must approve the issuance of shares of Common Stock or any other action which would result in the Hershey Trust Company, as Trustee for Milton Hershey School, not continuing to have voting control of the Corporation.

Net income per share has been computed based on the 90,186,336 weighted average number of shares of the Common Stock and the Class B Stock outstanding during the year, for all years presented.

11. Incentive Plan

The long-term portion of the 1987 Key Employee Incentive Plan (Plan) provides for grants or awards to senior executives and key employees of one or more of the following: performance stock units, non-qualified stock options (stock options), stock appreciation rights and restricted stock units. The Plan also provides for the deferral of performance stock unit awards by participants.

As of December 31, 1992, a total of 198,932 contingent performance stock units and restricted stock units had been granted for potential future distribution, primarily related to three-year cycles ending December 31, 1992, 1993 and 1994. Deferred performance stock units and accumulated dividend amounts totaled 244,190 shares as of December 31, 1992.

Stock options are granted at exercise prices of not less than 100% of the fair market value of a share of Common Stock at the time the option is granted and are exercisable for periods no longer than ten years from the date of grant. Each option may be used to purchase one share of Common Stock. No compensation expense is recognized under the stock options portion of the Plan.

Stock option activity was as follows:

	Shares under Options	
	Number of Shares	Option Price per Share
Outstanding — January 1, 1990	415,700	$23¾ to 28
Granted	502,700	$35⅜
Exercised	(77,840)	$25⅜ to 28
Cancelled	(5,600)	$35⅜
Outstanding — December 31, 1990	834,960	$23¾ to 35⅜
Granted	59,800	$36¼
Exercised	(30,135)	$23¾ to 28
Cancelled	(7,500)	$35⅜
Outstanding — December 31, 1991	857,125	$23¾ to 36¼
Granted	**939,000**	**$41⅛ to 44¾**
Exercised	**(69,650)**	**$23¾ to 35⅜**
Cancelled	**(9,500)**	**$44¾**
Outstanding — December 31, 1992	**1,716,975**	**$25⅜ to 44¾**

No stock appreciation rights had been granted or awarded as of December 31, 1992.

12. Supplemental Income Statement Information

Supplemental income statement information is provided in the table below. These costs were expensed in the year incurred.

For the years ended December 31, *(in thousands of dollars)*	**1992**	1991	1990
Promotion	**$398,577**	$325,465	$315,242
Advertising	**137,631**	117,049	146,297
Maintenance and repairs	**79,563**	72,192	66,203
Depreciation expense	**84,434**	72,735	61,725
Rent expense	**23,960**	23,288	20,758
Research and development	**24,203**	22,770	19,152

Rent expense pertains to all operating leases which were principally related to certain administrative buildings, distribution facilities and transportation equipment. Future minimum rental payments under non-cancellable operating leases with a remaining term in excess of one year as of December 31, 1992, were: 1993, $9.7 million; 1994, $12.1 million; 1995, $11.1 million; 1996, $10.8 million; 1997, $10.7 million; 1998 and beyond, $113.4 million.

Amounts for taxes other than payroll and income taxes, amortization of intangibles resulting from business acquisitions, and royalties were less than 1% of net sales.

13. Supplemental Balance Sheet Information

Accounts Receivable – Trade

In the normal course of business, the Corporation extends credit to customers which satisfy pre-defined credit criteria. The Corporation believes that it has little concentration of credit risk due to the diversity of its customer base. Receivables, as shown on the consolidated balance sheets, were net of allowances of $10.4 million and $9.5 million as of December 31, 1992 and 1991, respectively.

Inventories

The Corporation values the majority of its inventories under the last-in, first-out (LIFO) method and the remaining inventories at the lower of first-in, first-out (FIFO) cost or market. LIFO cost of inventories valued using the LIFO method was $350.4 million as of December 31, 1992 and $334.5 million as of December 31, 1991 and all inventories were stated at amounts that did not exceed realizable values. Total inventories were as follows:

December 31, *(in thousands of dollars)*	1992	1991
Raw materials	$243,243	$236,846
Goods in process	30,965	30,039
Finished goods	231,313	227,405
Inventories at FIFO	505,521	494,290
Adjustment to LIFO	(48,342)	(57,373)
Total inventories	$457,179	$436,917

Property, Plant and Equipment

Property, plant and equipment balances included construction in progress of $196.9 million and $170.5 million as of December 31, 1992 and 1991, respectively.

Major classes of property, plant and equipment were as follows:

December 31, *(in thousands of dollars)*	1992	1991
Land	$ 40,163	$ 37,911
Buildings	385,545	384,117
Machinery and equipment	1,371,729	1,159,268
	1,797,437	1,581,296
Accumulated depreciation	501,448	435,630
Property, plant and equipment, net	$1,295,989	$1,145,666

Accrued Liabilities

Accrued liabilities were as follows:

December 31, *(in thousands of dollars)*	1992	1991
Payroll and other compensation	$ 63,088	$ 55,346
Advertising and promotion	72,735	63,344
Interest	22,744	24,366
Other	82,249	83,211
Total accrued liabilities	$240,816	$226,267

14. Segment Information

The Corporation operates in a single consumer foods line of business, encompassing the domestic and international manufacture, distribution and sale of chocolate, confectionery, pasta and other food products.

Operations in Canada represent the majority of the Corporation's international business. Historically, transfers of product between geographic areas have not been significant. Net sales, income before interest and income taxes, and identifiable assets by geographic segment were as follows:

For the years ended December 31, *(in thousands of dollars)*	**1992**	1991	1990
Net sales:			
Domestic	**$2,871,438**	$2,566,448	$2,508,542
International	**348,367**	332,717	207,067
Total	**$3,219,805**	$2,899,165	$2,715,609
Income before interest and income taxes:			
Domestic	**$ 419,317**	$ 381,549	$ 344,303
International	**8,911**	8,753	6,278
Gain on Business Restructuring, Net	**—**	—	35,540
Total	**$ 428,228**	$ 390,302	$ 386,121
Identifiable assets as of December 31:			
Domestic	**$2,353,230**	$2,003,425	$1,820,434
International	**319,679**	338,397	258,394
Total	**$2,672,909**	$2,341,822	$2,078,828

15. Quarterly Data (Unaudited)

Summary quarterly results were as follows:

(in thousands of dollars except per share amounts)

Year 1992	**First**	**Second**	**Third**	**Fourth**	**Year**
Net sales	**$800,967**	**$621,840**	**$827,475**	**$969,523**	**$3,219,805**
Gross profit	**337,529**	**266,791**	**352,792**	**429,305**	**1,386,417**
Net income	**58,924**	**34,475**	**66,880**	**82,319**	**242,598**
Net income per share[a]	**.65**	**.39**	**.74**	**.91**	**2.69**

Year 1991	First	Second	Third	Fourth	Year
Net sales	$684,565	$585,166	$765,502	$863,932	$2,899,165
Gross profit	272,733	245,703	319,754	366,571	1,204,761
Net income	48,636	31,903	64,085	74,904	219,528
Net income per share[a]	.54	.35	.71	.83	2.43

[a] The weighted average number of shares outstanding was 90,186,336 for all periods presented.

Responsibility for Financial Statements

Hershey Foods Corporation is responsible for the financial statements and other financial information contained in this report. The Corporation believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

The Corporation maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived. The Corporation believes its system provides an appropriate balance in this regard. The Corporation maintains an Internal Audit Department which reviews the adequacy and tests the application of internal accounting controls.

The financial statements have been audited by Arthur Andersen & Co., independent public accountants, whose appointment was ratified by stockholder vote at the stockholders' meeting held on April 27, 1992. Their report expresses an opinion that the Corporation's financial statements are fairly stated in conformity with generally accepted accounting principles, and they have indicated to us that their examination was performed in accordance with generally accepted auditing standards which are designed to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The Audit Committee of the Board of Directors of the Corporation, consisting solely of outside directors, meets regularly with the independent public accountants, internal auditors and management to discuss, among other things, the audit scopes and results. Arthur Andersen & Co. and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

Report of Independent Public Accountants

To the Stockholders and Board of Directors
of Hershey Foods Corporation:

We have audited the accompanying consolidated balance sheets of Hershey Foods Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1992 and 1991, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1992, appearing on pages 22, 24, 26, 28 and 29 through 37. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1992 and 1991, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1992 in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

New York, N.Y.
January 29, 1993

Directors and Senior Management*

Board of Directors

Richard A. Zimmerman
Chairman of the Board and Chief Executive Officer

Howard O. Beaver, Jr.
Retired Chairman of the Board Carpenter Technology Corporation Reading, Pa.

John F. Burlingame
Retired Vice Chairman of the Board and Executive Officer General Electric Company Fairfield, Conn.

Thomas C. Graham
President and Chief Executive Officer Armco Steel Company, LP Middletown, Ohio

John C. Jamison
Chairman Mallardee Associates a privately-held corporate financial services business Williamsburg, Va.

Dr. Sybil C. Mobley
Dean, School of Business and Industry Florida Agricultural and Mechanical University Tallahassee, Fla.

Francine I. Neff
Vice President and Director NETS Inc. a privately-held investment company Albuquerque, N.M.

Rod J. Pera
Chairman, Hershey Trust Company, Acting President and Chairman of the Board of Managers of Milton Hershey School, and Partner, McNees, Wallace & Nurick Harrisburg, Pa.

John M. Pietruski
Chairman of the Board Texas Biotechnology Corp. Houston, Texas

Vincent A. Sarni
Chairman of the Board and Chief Executive Officer PPG Industries, Inc. Pittsburgh, Pa.

H. Robert Sharbaugh
Retired Chairman and Chief Executive Officer Sun Company, Inc. Radnor, Pa.

Joseph P. Viviano
President Hershey Chocolate U.S.A.

Kenneth L. Wolfe
President and Chief Operating Officer

Audit Committee

Dr. Sybil C. Mobley, *Chair*
John F. Burlingame
Thomas C. Graham
John M. Pietruski
Vincent A. Sarni
H. Robert Sharbaugh

Committee on Directors

John C. Jamison, *Chair*
Dr. Sybil C. Mobley
Rod J. Pera
Richard A. Zimmerman

Compensation and Executive Organization Committee

John F. Burlingame, *Chair*
Howard O. Beaver, Jr.
John C. Jamison
Francine I. Neff
John M. Pietruski

Employee Benefit Committee

Howard O. Beaver, Jr., *Chair*
Thomas C. Graham
Francine I. Neff
Rod J. Pera
Vincent A. Sarni
H. Robert Sharbaugh

Executive Committee

Richard A. Zimmerman, *Chair*
Joseph P. Viviano
Kenneth L. Wolfe

Corporate Officers

Richard A. Zimmerman
Chairman of the Board and Chief Executive Officer

Kenneth L. Wolfe
President and Chief Operating Officer

William Lehr, Jr.
Senior Vice President and Secretary

Michael F. Pasquale
Senior Vice President and Chief Financial Officer

Frank Cerminara
Vice President Corporate Development and Commodities

Dr. Charles L. Duncan
Vice President Research and Development

Thomas C. Fitzgerald
Vice President and Treasurer

Sharon A. Lambly
Vice President Human Resources

Robert M. Reese
Vice President and General Counsel

John B. Stiles
Vice President and Corporate Controller

Dr. Barry L. Zoumas
Vice President Science and Technology

Division Presidents

William F. Christ
President Hershey International

Richard W. Meyers
President Hershey Canada Inc.

C. Mickey Skinner
President Hershey Pasta Group

Joseph P. Viviano
President Hershey Chocolate U.S.A.

*As of March 1, 1993

Hershey Foods Corporation

Six-Year Consolidated Financial Summary

(all dollar and share amounts in thousands except market price and per share statistics)	1992	1991	1990	1989	1988	1987
Summary of Operations[a]						
Net Sales	$3,219,805	2,899,165	2,715,609	2,420,988	2,168,048	1,863,816
Cost of Sales	$1,833,388	1,694,404	1,588,360	1,455,612	1,326,458	1,149,663
Selling, Marketing and Administrative	$ 958,189	814,459	776,668	655,040	575,515	468,062
Gain on Business Restructuring, Net	$ —	—	35,540	—	—	—
Interest Expense, Net	$ 27,240	26,845	24,603	20,414	29,954	22,413
Income Taxes	$ 158,390	143,929	145,636	118,868	91,615	99,604
Income from Continuing Operations	$ 242,598	219,528	215,882	171,054	144,506	124,074
Discontinued Operations	$ —	—	—	—	69,443	24,097
Net Income	$ 242,598	219,528	215,882	171,054	213,949	148,171
Income Per Share from Continuing Operations	$ 2.69	2.43	2.39[e]	1.90	1.60	1.38
Net Income Per Share	$ 2.69	2.43	2.39[e]	1.90	2.37	1.64
Weighted Average Shares Outstanding	90,186	90,186	90,186	90,186	90,186	90,186
Dividends Paid on Common Stock	$ 77,174	70,426	74,161[b]	55,431	49,433	43,436
Per Share	$ 1.030	.940	.990[b]	.740	.660	.580
Dividends Paid on Class B Common Stock	$ 14,270	12,975	13,596[b]	10,161	9,097	8,031
Per Share	$ .935	.850	.890[b]	.665	.595	.525
Income from Continuing Operations before Interest and Income Taxes as a Percent of Net Sales	13.3%	13.5%	12.9%[c]	12.8%	12.3%	13.2%
Income from Continuing Operations as a Percent of Net Sales	7.5%	7.6%	7.2%[c]	7.1%	6.7%	6.7%
Depreciation	$ 84,434	72,735	61,725	54,543	43,721	35,397
Advertising	$ 137,631	117,049	146,297	121,182	99,082	97,033
Promotion	$ 398,577	325,465	315,242	256,237	230,187	171,162
Payroll	$ 433,162	398,661	372,780	340,129	298,483	263,529
Year-end Position and Statistics[a]						
Working Capital	$ 203,039	273,747	320,552	281,821	273,716	190,069[d]
Capital Additions	$ 249,795	226,071	179,408	162,032	101,682	68,504
Total Assets	$2,672,909	2,341,822	2,078,828	1,814,101	1,764,665	1,544,354
Long-term Debt	$ 174,273	282,933	273,442	216,108	233,025	280,900
Stockholders' Equity	$1,465,279	1,335,251	1,243,537	1,117,050	1,005,866	832,410
Current Ratio	1.3:1	1.6:1	1.9:1	2.0:1	1.8:1	1.7:1[d]
Capitalization Ratio	27%	22%	19%	17%	22%	27%
Net Book Value Per Share	$ 16.25	14.81	13.79	12.39	11.15	9.23
Operating Return on Average Stockholders' Equity	17.3%	17.0%	16.6%	16.1%	17.5%	19.0%
Operating Return on Average Invested Capital	14.4%	13.8%	13.4%	13.2%	13.3%	13.5%
Full-time Employees at Year-end	13,700	14,000	12,700	11,800	12,100	10,540
Stockholders' Data						
Outstanding Shares of Common Stock and Class B Common Stock at Year-end	90,186	90,186	90,186	90,186	90,186	90,186
Market Price of Common Stock at Year-end	$ 47	44 3/8	37 1/2	35 7/8	26	24 1/2
Range During Year	$ 48 3/8-38 1/4	44 1/2-35 1/8	39 5/8-28 1/4	36 7/8-24 3/4	28 5/8-21 7/8	37 3/4-20 3/4
Year-end Common Stock and Class B Common Stock Holders	31,642	31,029	30,052	29,998	30,430	29,151
Approximate Annual Composite Trading Volume	24,146	27,975	31,024	41,220	46,693	48,145

Notes:

(a) Amounts for 1987 have been restated for discontinued operations, where applicable. Operating Return on Average Stockholders' Equity and Operating Return on Average Invested Capital have been computed using Net Income, excluding the gain on the sale of Friendly Ice Cream Corporation and the Gain on Business Restructuring, Net.

(b) Amounts included a special dividend for 1990 of $11.2 million or $.15 per share of Common Stock and $2.1 million or $.135 per share of Class B Common Stock.

(c) Calculated percent excludes the Gain on Business Restructuring, Net. Including the gain, Income from Continuing Operations before Interest and Income Taxes as a Percent of Net Sales was 14.2% and Income from Continuing Operations as a Percent of Net Sales was 7.9%.

(d) Amounts exclude net assets of discontinued operations.

(e) Income Per Share from Continuing Operations and Net Income Per Share for 1990 included a $.22 per share Gain on Business Restructuring, Net. Excluding the impact of this gain, Income Per Share from Continuing Operations and Net Income Per Share would have been $2.17.

Stockholders

As of December 31, 1992, Hershey Foods Corporation had outstanding 74,929,057 shares of Common Stock and 15,257,279 shares of Class B Common Stock owned by 31,642 stockholders of record.

Annual Meeting

A notice of the Annual Meeting of Stockholders is listed on page 1.

Stock Market Data

Hershey Foods Corporation's Common Stock is listed and traded principally on the New York Stock Exchange under the ticker symbol "HSY." Class B Common Stock is not listed for trading. The stock tables of most financial publications list the Corporation as "Hershey." Options on the Corporation's Common Stock are traded on the American Stock Exchange.

Common Stock Profile

	Common Stock Price			Dividends Paid	
1992	High	Low	Close	Common	Class B
(calendar quarter)					
1st Qtr.	$45 1/4	$39 7/8	$40 1/8	$.245	$.2225
2nd Qtr.	42 1/8	38 1/4	42	.245	.2225
3rd Qtr.	45 1/2	41 5/8	45 1/4	.270	.2450
4th Qtr.	48 3/8	43 1/2	47	.270	.2450

Dividends

Dividends on Hershey Foods Corporation's Common Stock and Class B Common Stock are declared by the Board of Directors and are normally paid in the months of March, June, September and December.

The dividend to be paid on the Common Stock in March 1993 will be the 253rd consecutive regular dividend paid by the Corporation. The dividend rate has been increased annually for 18 consecutive years.

Dividend Reinvestment Service

The Corporation offers an Automatic Dividend Reinvestment Service to registered holders of Hershey Foods Common Stock. This service provides a convenient method of increasing share ownership without paying brokerage commissions or service fees. Participants also may make voluntary cash payments of up to $20,000 annually for which there are only nominal brokerage commissions and service fees. Approximately one-third of Hershey Foods Corporation's registered stockholders are enrolled in this Automatic Dividend Reinvestment Service. For more information, contact:

Chemical Bank
Dividend Reinvestment Department
P.O. Box 24850
Church Street Station
New York, NY 10242-4850
(800) 647-4273

Safekeeping of Stock Certificates

Stock certificates are valuable documents and should be kept in a safe place such as a safe deposit box. Stock certificates should not be signed until sold or transferred to another person. For tax purposes, please keep a record of each certificate, including the original cost. This record should be kept in a separate place from the certificates.

Form 10-K

Form 10-K, filed annually in March with the Securities and Exchange Commission, is available without charge by contacting:

Office of the Corporate Secretary
Hershey Foods Corporation
P.O. Box 810
Hershey, PA 17033-0810
(717) 534-7527

Quarterly Reports

Upon written request, a copy of the Corporation's quarterly reports will be furnished without charge to any stockholder whose stock is held by a broker. All written requests should be sent to the Investor Relations contact listed on the inside front cover.

Stockholder Inquiries

Questions relating to stockholder records, change of ownership, change of address and dividend payments should be sent to the Corporation's Transfer Agent, Chemical Bank, listed on the inside front cover.

Financial Information

Security analysts, investment managers and stockholders should direct financial information inquiries to the Investor Relations contact listed on the inside front cover.

Hershey Foods Corporation
Hershey, Pennsylvania 17033, U.S.A.